

Table 8 reports the results of four projections in the scenarios previously described. The comparison between the first columns of tables 7 and 8 shows that the devolution enlarges the scale of interregional redistribution of about 50% as the total amount of equalising transfers grows from 10 to 16 billions of Euro. As described by table 9, the increment is due entirely to the component that equalises fiscal capacity: the enlargement of the VAT sharing emphasises the effect of the uneven distribution of consumption among Regions. Quite interestingly the introduction of a new correction for education need in the equalisation formula reduces the interregional transfers.

As shown by table 9 the corrections for health and education need are negatively correlated. This is easily explained as the older the population is, the higher the health need and the lower the education need are.

Overall, the devolution strengthens the polarisation of financial flows between the Northern Regions, which have high consumption and low education need, and the Southern Regions, where consumption is low but the education need is high due to a relatively young population.

As to the effects of higher economic growth in the South, the devolution does not change significantly the results: the total amount of transfers is reduced by about one fifth.

## 6 – Concluding Remarks

Since the Seventies, local governments in Italy were financially dependent on grants from the central government. The lack of fiscal autonomy was the source of several inefficiencies and the main reason of large budget deficits at the local level. During the '90s the fiscal autonomy of local governments has been substantially increased: local governments now have the power to raise own taxes and receive a large share of revenue from national taxes. A new system of equalising grants has been implemented to support regions with small tax bases.

This fundamental reform has removed many deficiencies of the past system of local public finance. Yet, there are many issues that must be dealt with in the future. First, the principle of uniformity in health standards across the country, might be at odds with the decision of eliminating any kind of ex-post financing in order to foster the financial responsibility of local government. Second, the incentives to implement autonomous tax policies at the local level might be hindered by the new mechanism of interregional redistribution. Finally, the viability of the entire system in the medium-long run is conditional on the evolution of the North-South dualism.